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Press Release

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WEST VIRGINIA ATTORNEY GENERAL SUES WALL STREET FIRMS FOR CONSUMER PROTECTION VIOLATIONS

Attorney General Darrell McGraw has filed suit on behalf of the State of West Virginia in Marshall County Circuit Court against 10 Wall Street firms for "multiple and repeated violations of the West Virginia Consumer Credit and Protection Act."

The suit alleges that pressure from these firms' investment banking sectors created illegal conflicts of interest, which skewed the objectivity of reports made, by the firms' research and analysis departments.

The defendants named in the State's complaint include Bear Stearns, Credit Suisse First Boston, Goldman Sachs, Lehman Brothers, Citigroup Global Markets, J.P. Morgan, Morgan Stanley, Merrill Lynch, UBS Warburg, and U.S Bancorp Piper Jaffray.

During the time period covered by the suit – July 1, 1999, through the present—the defendants offered both investment banking and research and analysis services. The defendants claimed publicly that these two components of their businesses operated independently of each other, the State's suit claims that this was not the case.

"The defendants placed their analysts in a position where they could be, and were, subjected to direct pressure by the defendants' investment banking customers to give them favorable analytical coverage," the complaint states. "This pressure compromised the research analysts' objectivity and independence," the complaint adds.

The Attorney General's allegations also include:

This led the analysts to issue reports, which were misstated, exaggerated, unwarranted, unfair, and deceptive as to the value of stocks and other financial products in order to benefit investment banking clients, which in turn benefitted the analysts themselves in the form of higher monetary compensation.

At least two defendants engaged in illegal "spinning" practices whereby they provided preferential insider access to valuable Initial Public Offering (IPO) shares to executives of companies whose investment banking business they had or wanted to attract.

The defendants, along with their analysts and investment bankers, were well aware of their conflicts of interests. The complaint recites an email from one defendant's analyst to an institutional investor, which says, "well, ratings and target prices are fairly meaningless anyway...but, yes, the 'little guy' who isn't smart about the nuances may get misled, such is the nature of my business."

Another of the many telling quotes in the complaint is from an email from another analyst for one of the defendants who wrote,

"I am trying to make them look good ... we got paid for this ... and I am going to Cancun tomorrow because of them."

According to the West Virginia Consumer Credit and Protection Act, any unfair, deceptive, or dishonest act directed at, reaching, or affecting a person in the State is punishable by a fine of up the \$5000 per offense. The State's lawsuit alleges that there could be hundreds of thousands of violation in this case, and it asks the court to impose the maximum penalty for each offense.

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